

STATE OF VERMONT
PUBLIC SERVICE BOARD

EEU-2010-04

(In Re: SMEEP and EEU 2010-2011 Budgets)

Order entered: 9/29/2010

ORDER MODIFYING 2009-2011 ENERGY EFFICIENCY UTILITY BUDGETS

I. INTRODUCTION

In this Order, we reduce the 2009, 2010 and 2011 Energy Efficiency Utility ("EEU") budgets by \$62,000, \$1,915,000, and \$2,200,000, respectively, to reflect the creation of the Self-Managed Energy Efficiency Program ("SMEEP"). The new 2009, 2010 and 2011 EEU budgets are \$30,688,000, \$33,485,000 and \$38,500,000, respectively. We also determine that it is appropriate to reduce the total amount to have been collected from the industrial customer class via the Energy Efficiency Charge ("EEC") in 2010 by \$2,200,113, when determining whether there was an over or undercollection in 2010 for the purpose of setting 2011 EEC rates.¹

II. BACKGROUND

The EEU's budgets for electric efficiency services for calendar years 2009, 2010, and 2011 (\$30,750,000, \$35,400,000, and \$40,700,000, respectively) were established in our August 29, 2008, Order.² The budget for these services is funded primarily via the EEC, which is a non-bypassable volumetric charge that is separately stated on electric customers' bills. The EEC rates are calculated using the formula set forth in PSB Rule 5.300; the EEU budget for the relevant year is an input into that formula. The EEC rate calculation is performed in the fall of

1. All references to the industrial customer class in this Order refer to industrial customers of all utilities except for the City of Burlington Electric Department ("BED"). Because BED implements EEU services in its service territory, its EEC rates are calculated separately. Since the only SMEEP participant is not in BED's service territory, the creation of the SMEEP has no effect on BED's share of the 2010 or 2011 EEU budgets or on the calculation of 2010 or 2011 EEC rates for BED's industrial customers.

2. Order Re: Energy Efficiency Utility Budget for Calendar Years 2009, 2010, and 2011, dated August 29, 2008.

each year, and the new rates take effect with bills rendered on and after February 1 of the following year.

New legislation enacted in 2009 required the Public Service Board ("Board") to establish a self-managed energy efficiency program ("SMEEP") by January 1, 2010.³ The statute also provides that entities approved to participate in the SMEEP shall be exempt from paying the EEC.

When the Board established the EEC rates for 2010, it noted that the implementation of the SMEEP would affect the amount collected via the EEC. The Board also stated that while, from a public policy perspective, it would be better for the Board to make all the decisions necessary to implement the SMEEP prior to establishing the 2010 EEC rates, that could not be accomplished within the timeframe set forth in PSB Rule 5.300. As a result, the Board provided parties an opportunity to comment on various options for establishing 2010 EEC rates prior to the implementation of the SMEEP such that the rates would not need to be revised after the SMEEP was implemented. After considering parties' comments, the Board determined that it would set the 2010 EEC rates as if the SMEEP were not going to be implemented, and once participation in the program was known, the Board would reduce the 2010 EEU budget by the amount that the participant(s) would have paid in EEC charges (using the data associated with those customers that was included in the EEC calculation). This would ensure that customers not eligible to participate in the SMEEP would not experience EEC rate increases as a result of the SMEEP's creation.⁴

We established the SMEEP in a December 28, 2009, Order.⁵ In that same order, we approved the application of International Business Machines, Inc. ("IBM") to participate in the program. No other entity applied to participate in the SMEEP.⁶

3. See 30 V.S.A. § 209(h).

4. See Memorandum from Judith C. Whitney, Deputy Clerk of the Board, to Vermont electric distribution utilities and EEU e-mail service list, Re: 2010 Energy Efficiency Charge Rates, dated October 30, 2009, at 3-7.

5. Order Establishing a Self-managed Energy Efficiency Program ("SMEEP"), dated December 28, 2009.

6. As noted in our December 28, 2009, Order, according to the Vermont Department of Public Service ("DPS"), "[g]iven the Legislature's directives regarding eligibility, it appears that IBM is the only entity that currently qualifies

The Board sent to members of the EEU e-mail service list a draft order modifying the 2009-2011 EEU budgets, for their review and comment.⁷ Any comments were due on or before September 17, 2010. No entity filed comments. Today we adopt the draft order.

III. DISCUSSION

The original EEC rate calculation for 2010 was performed by the DPS in October 2009. The calculation uses the formula set forth in PSB Rule 5.300, and the rates are intended to collect a specific dollar amount. This dollar amount includes the 2010 budget for electric efficiency services previously established by the Board plus two adjustments. The first of these adjustments corrects for EEC over or undercollections in previous years.⁸ The second adjustment reflects the distribution utilities' EEC uncollectible accounts.⁹

Multiplying the billing determinants for IBM that were included in the DPS's original 2010 EEC rate calculation by the 2010 EEC rates approved by the Board for industrial customers shows that IBM would have paid \$2,138,402 via the EEC in 2010. In order to ensure that customers not participating in the SMEEP do not experience EEC increases as a result of the SMEEP's creation, it is appropriate to reduce the total amount to have been collected from the industrial customer class via the EEC in 2010 by this amount (\$2,138,402), when determining whether there was an over or undercollection in 2010 for the purpose of setting 2011 EEC rates.¹⁰

for the proposed program." 12/28/09 Order at 2 (footnote 2).

7. Memorandum from Susan M. Hudson, Clerk of the Board, to EEU E-mail Service List, dated September 2, 2010, Re: EEU-2010-04 (SMEEP and EEU 2010-2011 Budgets).

8. Because EEC rates are set using historical billing determinants while actual EEC collections are based on rate-year consumption, the amount collected via the EEC in the rate year differs from the amount the Board determined should be collected in the rate year.

9. Distribution utilities send EEC payments to the EEU Fiscal Agent based on EEC amounts billed, not collected. Utilities typically experience some amount of uncollectible accounts; these uncollectible accounts include EEC amounts. Utilities' electric rates include an allowance for the non-EEC portion of their uncollectible accounts. The amount collected via the EEC in the rate year is adjusted to reflect the EEC portion of past uncollectible accounts.

10. As discussed further on page 5, below, this is only one of the two necessary reductions to the total amount to have been collected from the industrial customer class via the EEC in 2010.

However, the \$2,138,402 includes funds associated with previous years' undercollections and uncollectible accounts. The appropriate reduction to the EEU budget should not include these additional funds. Therefore, to calculate the reduction to the EEU budget, it is appropriate to use the DPS's original spreadsheet to calculate what the industrial class EEC rates would have been if they were designed to collect only the actual EEU budget, then multiply these rates by IBM's billing determinants.¹¹ The DPS's original spreadsheet clearly identifies the amount of undercollections assigned to the industrial class (\$612,711).¹² The DPS's spreadsheet does not specify the amount of uncollectible accounts assigned to the industrial class. However, it does include the total amount of uncollectible accounts (\$177,129),¹³ and shows that 16.5 percent of the 2008 total rate revenues were paid by the industrial class. Since Rule 5.300 provides that the amount to be collected via the EEC should be divided among customer classes on the basis of the percent of rate revenues each class pays, it is reasonable to determine that \$29,226 in uncollectible accounts would be paid by the industrial class.¹⁴

The 2010 EEC rates were originally designed to collect \$6,182,055 in revenues from the industrial class. Subtracting the amounts associated with the two adjustments for undercollections and uncollectible accounts would mean that \$5,540,118 of the 2010 EEU budget would be paid by the industrial class. Inserting this figure into the DPS's original spreadsheet and calculating 2010 EEC rates for the industrial class results in rates of \$0.00343 per kWh plus \$0.5691 per kW. When these rates are multiplied by IBM's billing determinants that were used in the original calculation, IBM would have paid \$1,915,354 of the 2010 EEU budget. Rounding this number to the nearest thousand, it is appropriate to reduce the 2010 EEU budget by \$1,915,000. Therefore, the revised 2010 EEU budget is \$33,485,000.

Since the 2011 EEU budget was established prior to the creation of the SMEEP, it is also necessary to reduce it by what IBM would have paid. Rather than wait until all billing

11. The industrial class is the only one whose billing determinants, for the class as a whole, were affected by the creation of the SMEEP.

12. This includes \$526,419 in 2009 undercollections and \$86,292 in 2008 undercollections.

13. This includes \$160,953 in 2009 uncollectible accounts and \$16,176 in 2008 uncollectible accounts.

14. $\$177,129 * 0.165 = \$29,226$

determinants are known, it is reasonable to estimate that IBM would have paid the same percentage of the 2011 EEU budget that it would have of the 2010 EEU budget. IBM would have paid 5.41 percent of the 2010 budget;¹⁵ 5.41 percent of the 2011 budget is \$2,201,870.¹⁶ It is reasonable to round this figure to \$2,200,000. Therefore the revised 2011 EEU budget is \$38,500,000.

It is necessary to make one additional adjustment when calculating the 2011 EEC rates. As discussed above, the 2010 EEC rates include an estimate of the 2009 undercollections for the industrial class (\$526,419). However, we now know that the actual 2009 undercollections for the industrial class were \$704,827. Normally, pursuant to PSB Rule 5.300, the amount to be collected via the 2011 EEC rates would be increased to collect the difference between the estimated and the actual undercollections. However, a portion of this difference would have been paid by IBM. In order to ensure that customers not participating in the SMEEP do not experience EEC increases as a result of the SMEEP's creation, it is, therefore, necessary to reduce the amount of the difference that will be collected in 2011 EEC rates. Since IBM would have paid 34.59 percent of the total allocation to the industrial customer class in 2010,¹⁷ it is reasonable to estimate that IBM would have paid a similar percentage in 2011. Therefore, we determine that the total amount to have been collected from the industrial class via the EEC in 2010 should be reduced by \$61,711 (in addition to the \$2,138,402 reduction described above) when the 2011 EEC rates are calculated.¹⁸

Since \$61,711 of the 2009 EEU budget will not be collected from ratepayers, this is, in effect, a reduction to the 2009 EEU budget. Even though 2009 is past, it is necessary to formally make this reduction because the Board's contract with Vermont Energy Investment Corporation ("VEIC"), the entity serving as Efficiency Vermont, includes performance indicators that are based on the total budget for the 2009-2011 time period. A formal budget reduction will enable

15. $\$1,915,354 / \$35,400,000 = 5.41\%$

16. $\$40,700,000 * .0541 = \$2,201,870$

17. $\$2,138,402 / \$6,182,055 = 34.59\%$

18. $(\$704,827 - \$526,419) * .3459 = \$61,711.$

VEIC's performance goals to be adjusted according to the terms of the contract. After rounding to the nearest thousand, we determine that it is appropriate to reduce the 2009 EEU budget by \$62,000. Therefore, the revised 2009 EEU budget is \$30,688,000.

Under PSB Rule 5.300, the amount to be collected via the 2011 EEC would normally also be increased (or decreased) to collect the difference between the estimated 2009 uncollectible accounts and the actual 2009 uncollectible accounts. We do not know the exact amount of this difference. However, the difference between the estimated and actual 2008 uncollectible accounts was only \$16,176 for all customer classes. The industrial class is paying 16.5 percent of these costs, (\$2,669.04), and IBM would have paid 34.59 percent of the total allocation to the industrial customer class, which would be \$920.82. Even if the 2009 difference were double the 2008 difference, the amount IBM would have paid would not be material in the context of the total amount to be collected from the industrial customer class via the EEC in 2011. Therefore, we determine that it is not necessary to change the amount to be collected via the 2011 EEC to reflect the difference between the estimated 2009 uncollectible accounts and the actual 2009 uncollectible accounts.

Finally, we note that we will work with VEIC to modify the Board's contract with it to reflect the reductions to the 2009, 2010 and 2011 EEU budgets made herein.

IV. CONCLUSION

For the reasons set forth above, we reduce the 2009, 2010 and 2011 EEU budgets by \$62,000, \$1,915,000, and \$2,200,000, respectively, to reflect the creation of the SMEEP. The new 2009, 2010 and 2011 EEU budgets are \$30,688,000, \$33,485,000 and \$38,500,000, respectively. We also determine that it is appropriate to reduce the total amount to have been collected from the industrial customer class via the EEC in 2010 by \$2,200,113 (\$2,138,402 + \$61,711), when determining whether there was an over or undercollection in 2010 for the purpose of setting 2011 EEC rates.

V. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The revised Energy Efficiency Utility ("EEU") budget for 2009 shall be \$30,688,000.
2. The revised EEU budget for 2010 shall be \$33,485,000.
3. The revised EEU budget for 2011 shall be \$38,500,000.
4. The total amount to have been collected from the industrial class in all electric utility service territories except that of the City of Burlington Electric Department via the 2010 Energy Efficiency Charge ("EEC") shall be reduced by \$2,200,113 when determining whether there was an over or undercollection in 2010 for the purpose of setting 2011 EEC rates.

Dated at Montpelier, Vermont, this 29th day of September, 2010.

<u>s/ James Volz</u>)	
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<u>s/ David C. Coen</u>)	
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<u>s/ John D. Burke</u>)	

PUBLIC SERVICE
BOARD
OF VERMONT

OFFICE OF THE CLERK

FILED: September 29, 2010

ATTEST: s/ Susan M. Hudson
Clerk of the Board

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board (by e-mail, telephone, or in writing) of any apparent errors, in order that any necessary corrections may be made. (E-mail address: psb.clerk@state.vt.us)

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.